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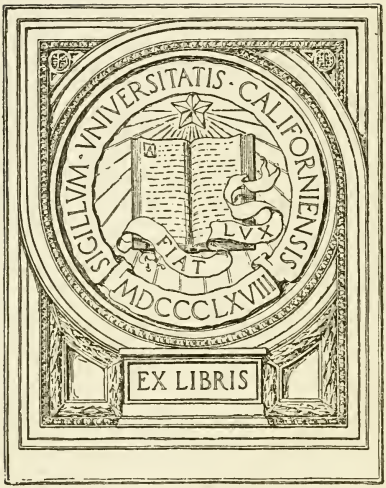

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PUBLICATION OF THE GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, HARVARD UNIVERSITY

VOL. IV, NO. 4 CAMBRIDGE, MASS. JULY, 1919

BULLETIN NO. 13
BUREAU OF BUSINESS RESEARCH

MANAGEMENT PROBLEMS IN RETAIL GROCERY STORES

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MANAGEMENT PROBLEMS IN RETAIL GROCERY STORES

INTRODUCTION

Operating expenses and management methods in the retail grocery trade have been studied by the Bureau of Business Research during the last five years. The results of this inquiry are here presented.

The topics that are discussed in this bulletin include operating expenses, accounting methods, selling problems, credit problems, and merchandise problems — such as buying, and the arrangement of the merchandise in the store. In the last part of the bulletin, some data on operating expenses and management problems in general merchandise stores, which usually sell groceries, are also briefly presented.

The reports that had been obtained by the Bureau through its field agents and by mail prior to January 1, 1919, numbered 1349, from 1076 retail grocers. The bulk of these were for the years 1914 and 1915. To bring this information up to date and to enable comparisons to be made between present conditions and pre-war conditions, the Bureau has secured by mail 197 reports for the business year 1918.[1]

The annual volume of business in the stores reporting for 1918 ranged from $5,665 to $513,900. The stores from which information was received were located in forty-one states and Canada. Some reports were also received incidentally from stores in Porto Rico and in England, but they are not included in this summary.

[1] Although the stores reporting for 1918 were identical only in part with those reporting in 1914–15, tests have been made which indicate that the figures are at least roughly comparable.

The retail grocery business is carried on chiefly through the following types of stores: — chain stores, department stores, mail order houses, stores selling fancy groceries, and ordinary grocery stores that are owned and operated as individual units. The chain store company generally maintains a central office and warehouse but sells at retail only through small branches scattered over a considerable area. This provides centralized purchasing and centralized management but a dispersion of selling in order to cater to the habits and needs of customers who wish to buy their supplies of groceries near their homes.

Few department stores maintain a grocery department and, among those that do, this department is sometimes not profitable. The grocery business does not seem to be well adapted, under ordinary conditions, to department stores. Department stores have heavy expenses for management, delivery, and rent, and in many stores these heavy expenses are only partially offset in the grocery department by the association with other departments in the store and by the advantage in wholesale purchasing. Groceries are not generally bought by shoppers but purchased regularly from stores that are conveniently situated, in inexpensive locations, near the residences of customers. In percentage of net sales the expenses for delivery and rent are as low in these grocery stores as in the grocery departments of department stores, and ordinarily management expense is lower than in department stores.

In each of the larger cities of the United States there are at least one or two stores, generally with a fairly large volume of business, which specialize in fancy groceries. Although they sell staple goods, they feature imported products and other specialties which are not found in wide selection in the average retail grocery store. The stores that sell fancy groceries generally give extensive service to their customers, with the consequence that their operating expenses are above

those of the average grocery store. Their gross profit is correspondingly higher.

The bulk of the retail grocery business is handled by the stores that are owned and operated as individual units, selling medium-price merchandise. Some of these sell only for cash, but the majority of them give credit and maintain delivery service. These are the typical retail grocery stores, and it is from this type of store that the Bureau has received four-fifths of its reports.

OPERATING EXPENSES IN RETAIL GROCERY STORES

For each item of expense, the table on page 9 gives the lowest, the highest, and the common figure for the stores that reported to the Bureau for the business year 1918. The common figure for each item is the one that is shown by the largest number of stores. It is the one around which all reports tend to center; the most representative, the most typical figure.

Owing to the changes brought about by war conditions and also because of the difficulty of securing reports for consecutive years from a large number of identical stores, it is not practical to include reports for different years in a single compilation of operating expenses, or to try to make exact comparisons.

Such comparisons as the Bureau has been able to make, however, for operating expenses in retail grocery stores for the last five years indicate that the ratio of total expense to sales has tended to decline. This means that the outgo for expense, while it has increased, has not increased as fast as the receipts from sales have risen. In this connection it is also to be pointed out that the ratio of gross profit to net sales has declined at about the same rate that percentage of total expense has decreased.

The items of expense that seem to show the most contrast between 1914 and 1918, in percentage of sales, are selling, delivery, and buying and management expense. Expenses for supplies and also for most of the fixed charges, such as heat, insurance, and taxes, on the other hand, appear to have increased as much as the retail prices of groceries, for the percentages of expense for these items do not seem to have undergone much change.

These changes in percentages of expense have probably been due in part to economies introduced to meet war conditions. They have also been due, it appears, to the fact that wages and salaries seem not to have increased as rapidly as selling prices. If salaries and wages had advanced at the same rate that prices increased, the percentages of expense for the wages and salaries items would have remained constant, whereas those percentages have tended to decline. The economies introduced to meet war conditions were of two sorts. Some meant the adoption of new methods for saving labor and are likely to be permanent. Others involved a curtailment of service to customers. In many stores such curtailment will probably not be permanent.

All the figures used in the table on the following page have been adjusted to the standard system of accounts for retail grocers, according to the revised edition published in 1917. Every statement has been examined carefully to make sure that it tallies with the others. Reports that were incomplete or of doubtful accuracy have been omitted in compiling the summary. All the percentages for both profit and expense are based on net sales. In every case net sales equals 100 %.

TABLE I. OPERATING EXPENSES IN RETAIL GROCERY STORES, 1918. Net Sales = 100%

	Lowest %	Highest %	Common %
Wages of Salesforce	3.0	8.7	4.7
Advertising	0.01	2.82	0.2
Wrappings and Other Selling Exp.	0.11	2.26	0.55
Total Selling Expense	3.41	9.94	5.8
Wages of Delivery Force	0.26	2.84	1.4
Other Delivery Expense	0.04	2.37	1.0
Total Delivery Expense	0.66	4.36	2.4
Buying, Management and Office Salaries	0.58	5.97	1.6
Office Supplies, Postage, Other Buying and Management Exp.	0.01	1.18	0.1
Total Buying and Management Expense	0.78	6.38	1.7
Total Interest	0.15	2.28	0.9
Rent	0.33	3.45	1.1
Heat, Light and Power	0.07	0.98	0.25
Taxes (except income and bldgs)	0.01	0.49	0.13
Insurance (except on buildings)	0.02	0.62	0.14
Repairs of Store Equipment	0.01	0.43	0.08
Depreciation of Store Equipment	0.07	2.17	0.25
Total Fixed Charges and Upkeep Expense	1.35	6.82	3.0
Miscellaneous Expense	0.19	1.97	0.5
Losses from Bad Debts	0.04	3.31	0.4
Total Expense	9.0	22.8	14.0

GROSS AND NET PROFIT

	Highest %	Lowest %	Common %
Gross Profit	26.04	10.5	16.9
Net Profit (or Loss)	*Profit* 9.29	*Loss* 6.05	*Profit* 2.3

Total Expense

The items in the expense statement, according to the standard system of accounting for retail grocers,[1] include not only expenditures such as those for wages, wrapping paper, advertising, postage, and telephone, but also a fair salary for the proprietor or partners, rent whether the store is leased or owned, and interest both on borrowed money and on the proprietor's net investment, and, of course, depreciation of equipment. The inclusion of all these items gives figures that can be used for comparison.

In 1918, the figures for total expense in the stores from which the Bureau received reports showed a range from 10.7%, the lowest, to 22.8%, the highest. The common figure for total expense in the business year 1918 was 14% of net sales.

Selling Expense

Total selling expense includes wages of salesforce, advertising, wrappings, and other selling expense. The lowest figure for total selling expense in 1918 was 3.41%, the highest 9.94%, and the common figure was 5.8%.

The largest item in selling expense, and in fact the largest individual item of all expenses, was wages of salesforce. This includes the wages paid to salespersons, and also a portion of the salary of the proprietor according to the time that he spends in selling. Wages of salesforce ranged from 3% to 8.7% in 1918, and the common figure was 4.7%.

[1] A full explanation of the individual accounts for merchandise and expense is given in Bulletin No. 3, System of Accounts for Retail Grocers. This also explains how net worth is determined and gives suggestions for keeping the records. Since Bulletin No. 5, Expenses in Operating Retail Grocery Stores, was published in 1915, the Bureau has revised the accounting system for retail grocers. The reasons for this change are explained in the revised edition of the accounting system published in May, 1917. By this revision interest on both borrowed capital and on the proprietor's net investment is included in fixed charges, whereas previously it was not included in expense.

Delivery Expense

Total delivery expense includes wages of delivery force and other delivery expense, the latter covering such items as expenditures for hay and feed, gasoline and horse-shoeing, depreciation, and all other outgo for the upkeep and maintenance of delivery equipment.

For the wages of delivery force the common figure was 1.4 % in 1918. Other delivery expense was generally about 1 % and the common figure for total delivery expense was 2.4 % in 1918.

Numerous reports were received from retail grocers whose deliveries were made by a coöperative delivery company. The total delivery expense in these stores was 1.4 % or less. This indicates that delivery expense was cut approximately in half by the use of a coöperative delivery system that delivered merchandise jointly for several merchants.

About 7 % of the stores from which the Bureau received reports did not make any deliveries. They were chiefly stores, with a volume of business below the average, selling low-price merchandise.

These stores that did not make deliveries eliminated the delivery expense. There was, however, little additional saving. They did not introduce other means of securing economy in expense. In fact, in many such stores the sales per salesperson were slightly lower than in stores that made deliveries, and the salesforce expense was fully as high. The rate of stock-turn was practically the same in stores that made deliveries and in those that did not.

In the stores that sold fancy groceries, on the other hand, the delivery expense was generally higher than in the average retail grocery store. The common figure for delivery expense in fancy grocery stores was 3.4 %. These stores delivered a larger percentage of their sales than was delivered by the medium-price stores, and they generally employed shipping clerks. The greater delivery service rendered by such stores

was one of the reasons for the higher total expense in the fancy grocery trade.

Buying and Management Expense

In compiling the figures from the reports that have been received, it was found advisable to combine buying and management expense. While some stores have found it worth while to keep their buying expense separate from their management expense, as was suggested in the standard accounting system, this was not the general practice.

Total buying and management expense includes buying, management and office salaries and also office supplies, postage, and other buying and management expense. A large item in this expense ordinarily is a part of the proprietor's salary apportioned according to the time he spends in buying and in managing the business. A large number of retail grocers reported that they devoted little time to managing their business. Some of their other expenses and their losses might be less if they did give more attention to management problems. The common figure for buying, management and office salaries was 1.6 % in 1918. The common figure for total buying and management expense was 1.7 % in 1918.

Fixed Charges and Upkeep Expense

This includes interest, rent, heat, light and power, taxes (except on income and buildings), insurance (except on buildings), repairs of store equipment, and depreciation of store equipment. The total fixed charges and upkeep expense ranged from 1.35 % to 6.82 % of net sales in 1918. The common figure in 1918 was 3 %.

Total interest, which is included in expense, is the sum of the interest that is paid on borrowed capital, and the interest on the proprietor's net investment in the business, exclusive of real estate which is covered by the charge for rent. The

average net investment, on which interest is charged here, is the average net worth of the business for the period. It is the sum of the assets (not including real estate) less the sum of the liabilities to outsiders (not including capital stock or surplus of a corporation, or undivided profits). The assets include cash, merchandise on hand, equipment at depreciated value, notes and accounts receivable, and prepayments such as prepaid insurance. The liabilities include notes and accounts payable and accrued items such as unpaid taxes (not mortgages on real estate). The net investment for a corporation is determined in the same way as for a proprietorship or a partnership, irrespective of the amount of capital stock issued.

The common figure for total interest in 1918 was 0.9 % of net sales. Owing to the faster stock-turn in retail grocery stores, total interest was substantially less than in retail hardware stores, for example, where the common figure was 3 % of the sales in 1918.

A charge for rent is included in expense whether the store is leased or owned. If the store is owned, the amount included here is that for which the store could be leased. This is an expense which the business fairly should bear. In 1918 the lowest figure for rent was 0.33 % of net sales; the highest was 3.45 %; and the common figure was 1.1 %.

While the figures for rent centered around 1.1 %, nevertheless there were a substantial number of stores which showed a rent expense between 0.5 % and 1 %. Another group centered around 1.9 %. These variations, however, did not seem to bear any relation to the volume of business, the size of the city, or the section of the country in which the store was located. Similar variations were found in both large and small businesses in large cities and in small towns throughout the country.

Losses from Bad Debts

The expense for losses from bad debts in 1918 varied from 0.04 % to 3.31 % of net sales. The common figure was 0.4 %. It appears that numerous retail grocers still continue to carry customers' accounts on their books for which there is practically no hope of collection. About 60 % of the retail grocers who reported to the Bureau stated that they charged off their bad debts once a year. Sixteen per cent charged off bad debts "occasionally," and 21 % stated that they never charged off a bad debt while a customer was alive. Only 3 % of the grocers charged off bad debts more frequently than once a year.

GROSS AND NET PROFIT

In 1918, the highest figure for gross profit was 26.04 %; the lowest figure was 10.5 %; and the common figure 16.9 % of net sales. Gross profit is the difference between the cost of the merchandise sold and the amount of the net sales. Out of this gross profit expenses are met and what remains is net profit.

The common figure for net profit in 1918 was 2.3 % of net sales. This net profit is the amount which remains for the proprietor after charging all expenses including his own salary, interest, and rent. The net profit is compensation for the risk that is incurred in the business and also reward for good management. It bears no relation to the amount of capital invested, but varies according to the skill and wisdom and foresight with which the business as a whole is conducted. The stores that showed a net loss or only a small net profit generally had a figure for gross profit somewhat below the average, and their expenses for such items as wages of sales-force, rent, and delivery were high. Their total expense was generally greater than in the stores that showed a normal net profit. As a rule a loss or a small profit could not be attributed solely to a single cause, but was rather due to conditions manifested throughout the management of the business.

STOCK–TURN

The rapidity with which the stock of merchandise in a retail store is turned is ordinarily a good index of the management of the business. In 1918, stock-turn ranged from 1.8 times a year to 27.07 times a year in retail grocery stores. The common figure was 7.9 times. Over one-fourth of the stores turned their stock in 1918 less than six times a year, and a substantial number of these less than four times a year.

Judging from the reports the Bureau has received from retail grocers during the last five years, net profit in the stores with an annual rate of stock-turn higher than 10 was about two and one-half times as great in percentage of net sales as in the stores with a stock-turn of less than 6 times a year. The total expense, furthermore, in stores with a high rate of stock-turn was substantially less than the total expense in stores with a low rate of stock-turn. The difference in the total expense between the two groups of stores was generally about 3% of net sales. The store with the lowest total expense had a stock-turn of 18.4 times a year.

VOLUME OF BUSINESS

In 1918, the typical retail grocery store, according to the reports received by the Bureau, had an annual volume of sales of $55,000 a year. From January 1, 1918, to January 1, 1919, the average inventory of merchandise on hand increased 11%. This increase in 1918 corresponded approximately to the increase in the price of foodstuffs as shown by the index numbers published by the War Industries Board.

The large stores showed about the same figure for gross profit and for total expense as was shown by medium-size stores. Stores with an annual volume of sales of over $100,000, for example, showed a common figure for gross profit of 15.9% in 1918, and 14% for total expense. The wages of salesforce and total selling expense were practically the same

as in smaller stores. Delivery expense was somewhat higher in the larger businesses; the common figure was 3.2 %. The figure for rent was somewhat less, 0.8 %. Stock-turn was but little larger, 9.3 times a year. Some of the stores with lowest expense and highest stock-turn, furthermore, had a volume of sales considerably below the average. It appears, therefore, that the small grocer, if he manages his business intelligently, can compete successfully with the large store.

ACCOUNTING METHODS

Under present conditions competition is so strong in the retail grocery trade, and there are so many opportunities for unseen leaks and losses from waste, spoilage, and theft, that the grocer who does not keep good records of his income and outgo is fortunate indeed if he avoids bankruptcy. Yet a surprisingly large proportion of the retail grocers of the country, judging from the Bureau's observations, do not keep accounts that are even approximately accurate. The result is unstable business, danger of frequent failures, and a heavy credit risk to wholesalers and manufacturers. This is unsound from the business standpoint, and a heavy burden to the public, which eventually pays the price of lax methods.

A majority of the retail grocers in the United States at the present time undoubtedly have records that are inadequate for their needs or none at all. The Bureau has found many cases of retailers who had no accurate information as to their profits or expenses and who did not know even approximately where they stood financially. There are many who never take an inventory of their merchandise on hand. Profits cannot be determined, of course, unless an actual inventory of stock on hand is taken at least once a year. Numerous other merchants who do take an inventory fail to include in their expenses some of the important items. One retail grocer, for example, stated to the Bureau that his total expense was 5 % of his sales. He had omitted numerous charges which

his business should bear. An item that is frequently omitted is the salary of the proprietor. Fully one-half of the retail grocers, moreover, do not keep an account of the merchandise taken out of the store for their family use. This is not sound business management.

A grocer, with a well-equipped store in a western city, has just furnished an example of the danger of slip-shod accounting methods. In 1913, his sales were $21,000 a year. He did not take any inventory of his stock on hand. He estimated his cost of merchandise sold by deducting a certain percentage from his sales. This figure was subtracted from the sum of his previous estimated inventory and his purchases to give an estimate of the stock on hand. He had an itemized record of most of the expenses of his business, and he included a salary for himself, but he did not keep any record of the goods taken from the store for family use. He charged his twine, wrapping paper, ice, and telephone to his purchases of merchandise, and did not include them in his expense. He felt that this made his bookkeeping easier. With little additional effort he could have had a complete statement of his accounts in full detail. In March, 1919, the Bureau received another report from him. This report showed that he was continuing his inaccurate methods. During the period of five years his business had been going constantly down-hill from the profit standpoint. His sales, due to competition, were slightly less. He had just discovered, perhaps too late, that he had lost a substantial sum of money in the business, and he did not know where it had gone. He had borrowed money by means of notes, and on life insurance, but it had all disappeared, and his net worth statement proved his own assertion that he was on the verge of bankruptcy. This is a typical case of a retailer who faced business ruin because of his failure to take inventory and his lack of complete, accurate knowledge of his profits and expenses. Had he known in season just where his leak or loss

was occurring, he probably could have stopped it. The time and effort that would have been required for taking an annual inventory and keeping a few additional records would have been a small amount to incur for the insurance of his profits.

Another similar case is that of a retail grocer in a large eastern city. He was fortunate, when he entered the grocery business, in securing an unusually favorable location in a rapidly growing suburb. In 1914, after three years in the business, his annual sales were $130,000, but at that time he had no records that showed him exactly where he stood. The business had grown rapidly and profitably, but it was necessary for the proprietor to be constantly in the store. He was relying upon personal watchfulness, without adequate accounts and records. In March, 1919, he was visited again by an agent of the Bureau, who found him just ready to dispose of his business. He admitted that he was beaten. With such a large volume of business, unseen leaks had drained away his profits.

Another retailer in the same city with a less favorable location, but with a similar volume of business, put his accounting methods in order in 1914 and began to compare his results with those of other stores. In 1919, the Bureau found that he was not only making a profit, but instead of being beaten by chain store competition he was about to rearrange the lay-out of his store in order to take care of a further expansion of his business. He was prepared to do it through the knowledge of his business that he had gained by keeping thorough records. The first of these two grocers had by far the better opportunity, but he had failed to grasp it.

In retail grocery stores where an inventory is taken, the stock is most commonly checked up between Christmas and New Year's Day each year. Some stores take a semi-annual inventory the first of July, and there are a few large stores that take a quarterly inventory.

The inventory of stock on hand is usually taken at billed cost with a deduction for any decline in market prices after the goods are purchased. In conservative management it is seldom safe to assume that unsold stock on the dealer's shelves is worth more than he paid for it. Consequently, the practice of a few grocers of taking inventory at current market prices on a rising market is not considered sound. It shows paper profits which have not been earned. Under conditions such as the present, when prices are subject to rapid change, especial care is necessary to avoid overvaluation of stock on hand.

Numerous instances have come to the attention of the Bureau in which retail grocers thought they were running their business at a profit when they were actually operating at a loss. In some cases this was due to the fact that they figured their profit on the cost of the goods sold, and their expenses on the sales. If a retailer's expenses were $16\frac{2}{3}$ % of the sales, and his gross profit 20 % of the cost of the goods sold, he would just come out even at the end of the year, for $16\frac{2}{3}$ % on the selling price equals 20 % on the cost. Either cost or selling price might be used as the basis for figuring percentages provided the same basis was used for both profits and expenses. The more practical method, from the Bureau's observations, is to figure both profits and expenses on sales.

SELLING PROBLEMS

Number of Customers

The retail grocery business is essentially a trade with families. The bulk of the sales of almost every grocery store are made to regular customers who buy constantly, in fact many of them daily. The number of regular customers varies directly with the volume of sales. The average annual sales to each regular customer, usually a family, in 1914 and 1915 were from $175 to $200. As a result of the increase in prices,

this average has increased in the last two years. In 1918, the average annual sales per regular customer for the grocers that reported to the Bureau were $250 to $300. This represented the average amount of sales made in a year by a grocer to each of the families that he regularly supplied.

Counter, Telephone and Residence Sales

Grocers sell their merchandise by three methods — at the counter, by telephone, and by soliciting orders at the residences of their customers. To determine whether selling expense varied according to the proportion of the sales made by these different methods, the Bureau carefully examined the reports that it received in 1915. At that time the conclusion was reached that it made little difference in the salesforce expense which of these methods predominated. Another examination of the reports for 1918 confirmed this conclusion. The number of stores soliciting orders at the residences of their customers declined somewhat in the last few years, but the salesforce expense continued to be about the same in stores that had a large counter trade, in stores that had a large telephone business, and in stores that solicited a large part of their orders at their customers' residences. Over one-half of the grocery stores reporting for 1918 stated that they did not solicit any orders at residences. Prior to 1917, about 33 % of the stores did not solicit orders at residences. Delivery expense was about the same in stores that did not solicit orders at residences as in other grocery stores.

Sales per Salesperson

The average annual sales per salesperson is generally an especially significant figure. This is found by dividing the annual volume of sales by the number of salespersons, including an allowance for the proportion of the proprietor's time that is spent in selling. In 1918, the average annual sales per

salesperson in the retail grocery stores from which reports were received amounted to about $15,800.

There is probably opportunity for an increase in the average sales per salesperson. The highest figure that the Bureau has found was $43,000 in 1918; this was a store with eight salesmen and an annual volume of sales of over $300,000. Some scattered information from companies operating chain grocery stores indicated that their average annual sales per salesperson frequently amounted to $30,000 or more. This is one of the means whereby the chain stores have been able to reduce their operating expenses.

A high volume of sales per salesperson is obtained through the economical arrangement of the merchandise and the layout of the store, as well as by the adoption of other policies. A plan of arranging the stock and laying out the store so as to make it possible for the salesmen to wait upon customers in as short a time as possible tends to increase the quantity of goods that each salesman can sell. Another means that is used in some stores for saving the time of the salesman is to have him secure as many items as possible on the order of a customer at the beginning. This may obviate the necessity of crossing and recrossing the store several times while filling a single order.

Sales Records

A large majority of the retail grocers did not keep records which showed the amount of goods sold by each salesperson. About one store in eight kept some sort of a record of the sales made by each salesperson. In stores operating branches, not including chain stores, about one-third of the firms kept sales records of this sort. These were chiefly daily records. Not over 1 % of the stores made up a weekly or monthly summary of the sales of each employee. The stores which had these sales records were mainly the large stores where the difficulty of supervising the work of each employee was rendered more

difficult by their number. In view of the advantages that have been gained in other lines of retail trade through the use of sales records, it appears quite possible that they might advantageously be utilized to a greater extent in retail grocery stores employing more than three or four salespersons. Such records obviously would be only an added expense unless they were utilized by the manager as a guide for increasing the efficiency of his force. In a retail grocery store with ten or twelve salesmen, for example, with sales records for each salesman, the manager knows how much each of the salesmen is selling. When the question of adding another salesman arises it is easy to determine whether or not he is necessary, provided there is some sort of reliable check upon what each of the force already employed is accomplishing.

Special Sales

An inquiry was made regarding special sales and sales leaders. About one-third of the single stores held special sales, and a much larger percentage of the stores operating branches. These stores generally used staples as sales leaders. In normal times, before the war, sugar was more commonly used than any article as a leader. Other articles used for this purpose were flour, butter and eggs, coffee, and potatoes. These special sales were more common in the larger stores than in the smaller stores. Advertising expense, selling expense, and average annual sales per salesperson were about the same in stores holding special sales and in those not holding such sales. The rate of stock-turn was generally no higher in stores that used leaders and held these special sales.

Advertising

Advertising is a small expense in most retail grocery stores. Many retailers stated that they used exclusively the advertising matter furnished to them by wholesalers and manufacturers. Among the retailers who utilized this advertising

there seemed to be a unanimous opinion that window displays and display signs for the store were the most effective. Next to these signs, in advertising value, in the opinion of the retailers, were the samples supplied to the retailer to be distributed to his trade. Very few of the strictly cash stores indicated a preference for samples. Doubtless this was due to the fact that cash stores less frequently have the names and addresses of their customers, and therefore are not prepared to furnish a mailing list, or to mail the samples. The other forms of advertising most commonly used by retail grocers were advertising in local newspapers, trading stamps, and premiums. About one-half of the grocers reporting to the Bureau for 1918 stated that they advertised in newspapers. This was a somewhat higher proportion than in previous years. Among cash grocery stores a greater percentage used newspaper advertising than among credit stores. For the trade as a whole, newspapers were more extensively used for advertising by grocers in cities of less than 25,000 inhabitants than in larger cities.

Of the stores reporting to the Bureau before 1917, about 10 % stated that they gave their customers trading stamps. This proportion was about the same in cash stores and in credit stores. The reports for 1918 indicated that the use of trading stamps had become somewhat less common. A number of stores which had previously given trading stamps stated that they had discontinued the practice. Stores which used trading stamps showed about the same volume of business as other stores. Their advertising expense, however, was higher. The common figure for advertising expense, which according to the System of Accounts for Retail Grocers includes trading stamps and premiums, was 1.3 % of net sales in stores that gave trading stamps, and 0.3 % of net sales in stores that did not give trading stamps.

The use of premiums given away with sales of merchandise was less common than the use of trading stamps. The com-

mon volume of sales in stores which used premiums was about the same as for other stores. The advertising expense for stores using premiums was practically the same as for stores which did not use either trading stamps or premiums.

The only advertising used by many grocers was window display. Some stores said that they gave this special attention, carefully planning their display to fit seasonal demands, or to take advantage of some appeal of current interest.

Only a few of the grocers stated that they had found circular letters a good form of advertising for their business. Those that used circular letters were chiefly the grocers who carried high-price goods.

These conclusions regarding the various forms of advertising are based entirely upon the statements made by the grocers themselves. In some cases it is possible, of course, that some forms of advertising may not have been adequately tried out by the majority of those who furnished reports.

CREDIT PROBLEMS

Only 10.5 % of all the stores reporting to the Bureau, exclusive of chain stores, did a strictly cash business. The average annual volume of sales in these cash stores in 1918 was $50,000. Of the stores that granted credit, 12 % reported that about one-third of their sales were credit sales; 26 % stated that about one-half of their sales were credit sales; and in 62 % of these stores the credit sales were two-thirds or more of their total business. The average annual volume of sales in the stores that granted credit in 1918 was $55,000.

The practice of granting credit to customers varied according to the character of the business. Very few of the fancy or high-price grocery stores did a strictly cash business. In three-fourths of such stores the average length of credit allowed to their customers was one month.

Stores selling medium-price merchandise handled the bulk of the retail grocery business of the country. Although a

somewhat larger number of these did a strictly cash business than was the case in the fancy grocery trade, nevertheless a large majority sold partly for credit. Eighty-five per cent of the medium-price stores that granted credit usually required their customers to settle their accounts oftener than once a month. Stores that sold low-price merchandise generally gave credit for an even shorter time. Twenty-five per cent of them allowed only one week's credit, and 38% allowed only two weeks' credit. In spite of the stricter credit policy, however, in these low-price stores, the losses from bad debts were somewhat greater in proportion to sales than in the other classes of grocery stores.

For stores that did a strictly cash business, the total expense was less than the stores that granted credit. The difference in total expense generally was about 3% of net sales. The expense for total interest was slightly less. Office expense in cash stores was about one-half the office expense in credit stores. Many of the cash stores, furthermore, did not deliver merchandise, and this was the chief reason for their lower total expense. The annual rate of stock-turn was practically the same in cash stores and in credit stores.

One-fourth of the stores that operated branches sold only for cash. This does not include companies with a chain store organization, but only those businesses that had two, three, or four branches. The difficulty of supervision of credit in branch stores is probably the chief reason for the tendency toward an all-cash business.

MERCHANDISE PROBLEMS

Buying

The average retail grocer, according to the Bureau's reports, buys his merchandise from not more than ten wholesalers. A few stated that they bought all their merchandise from one wholesaler, and there were also a few who bought

from a larger number than the average. There was a marked tendency, however, to concentrate purchases. Over 80 % of the retailers from whom reports were received for the last year stated that they were seeking to buy from fewer rather than from a larger number of wholesalers. This tendency was stronger in 1918 than it was before the war. The grocer who concentrates his purchases believes that he receives better service and better terms. His business becomes more worth while to the wholesalers from whom he buys. From the wholesaler's standpoint, furthermore, the credit risk is generally lessened through concentration of purchases by a customer; a small number of creditors can more easily secure the adoption of plans for averting bankruptcy, in case of financial difficulty, than when there is a large number of small creditors.

One grocer submitted a report that showed a net worth of $1,136, with bills and accounts payable of $22,474. His cash on hand was $723, his merchandise inventory $15,005, and his accounts receivable $6,603. He was buying from ten wholesalers and aiming to buy from more. His stock-turn was 4.5 times a year. This retailer was plainly over-buying, and his efforts to purchase from a larger number of sources rendered his situation only more precarious. A comparatively small drop in prices would wipe out entirely his equity in the business and render him bankrupt unless he were given temporary assistance by his creditors. The creditors would be much more likely to give him this assistance if his purchases, and hence his obligations, were concentrated.

Coöperative buying associations have been organized in increasing numbers during the last few years. The Bureau is not prepared to state any conclusion, however, regarding these until it has made further investigations.

Sources of Supply

In the course of its inquiries the Bureau obtained information regarding the sources from which merchandise was purchased. The replies to this inquiry, of course, were estimates, but these seem to furnish some conclusions that are worth stating. In general, the methods of buying appear to have been much the same in 1918 as in the preceding four years. Unless otherwise indicated, the statements in the following sections cover the entire five-year period.

In purchasing flour, over 35 % of the retail grocers bought all their flour direct from the manufacturers. One-third of the grocers did not purchase any flour direct from the manufacturers. Among those who made some purchases from the manufacturers but not exclusively from that source, a large majority bought over one-half direct. Some of the flour that was not bought direct from the manufacturers was bought from flour jobbers. The proportion of grocers purchasing from flour jobbers, however, was small. A large part of the flour that was not bought direct from the manufacturers was purchased from wholesale grocers.

Sugar was purchased mainly from wholesale grocers. Four-fifths of the retailers reported that all their sugar was bought from that source. Less than 5 % purchased sugar exclusively from the manufacturers. Most of those who did purchase sugar from manufacturers were located in the eastern part of the country.

Salt, baking powder, and soda were purchased mainly from wholesale grocers. About four-fifths of the retailers reported that they bought these articles only from wholesale grocers and many of those who did not buy exclusively from wholesalers made at least a part of their purchases from that source.

Two-thirds of the retail grocers purchased all their soap from wholesale grocers, and in addition 20 % purchased over one-half and 5 % purchased less than one-half from wholesale

grocers. About 4 % bought their entire supply of soap direct from manufacturers.

Over four-fifths of the retailers bought breakfast foods exclusively from wholesale grocers, and less than 15 % of the retailers made any purchases of breakfast foods direct from the manufacturers.

The trade in crackers and bakery goods, in contrast to the trade in the articles mentioned above, was largely with the manufacturers. Eighty-five per cent purchased all their crackers from the manufacturers, and over 5 % of the others purchased a part of their supply direct. Only 8 % of the retailers purchased all their crackers from wholesale grocers. In the case of bakery goods, which are largely of local production and subject to rapid deterioration, 95 % of the grocers purchased solely from the bakers. These are products in the distribution of which the wholesale grocer has almost no place.

Coffee was purchased only from wholesale grocers by 29 % of the retailers. In addition to those who purchased all their coffee from wholesale grocers, 10 % purchased over one-half of their coffee and 13 % purchased less than one-half from wholesale grocers. Forty-eight per cent, or almost one-half of the retailers, purchased coffee exclusively from coffee roasters and specialty wholesalers. Thirty-six per cent of the retailers purchased tea only from wholesale grocers. About 15 % purchased a part of their supply of tea from wholesale grocers but did not buy entirely from that source. The others bought from tea importers and specialty wholesalers.

Four-fifths of the retail grocers purchased cocoa, dried fruit and nuts exclusively from wholesale grocers. In addition 10 % made part of their purchases of these articles from that source. Slightly over one-half of the retailers bought all their spices from wholesale grocers.

About one-third of the retailers purchased extracts and essences only from wholesale grocers. Fifteen per cent re-

ported that part, but not all, of their purchases of these articles was made from wholesale grocers. Thirty per cent of the retailers bought their entire supply of extracts and essences direct from manufacturers. Ten per cent purchased condiments only from manufacturers, and another 10 % made part of their purchases from manufacturers. Two-thirds of the retailers placed all their orders for condiments with wholesale grocers. The proportion purchasing molasses direct from the manufacturers was small; 87 % bought it only from wholesale grocers.

The methods of buying such produce as butter, cheese, eggs, fresh vegetables, and fresh fruit varied in different parts of the country. Retailers located in small towns in farming districts purchased much more of this produce direct from the farmers than was possible for the retailers in the larger cities. Forty-five per cent of the retailers purchased all their butter direct from the producers, and 20 % made part of their purchases direct. Many retail grocers purchased these products largely from commission merchants and jobbers.

Eleven per cent of the retailers purchased all their cheese direct from the producers, and in addition 15 % made some of their purchases direct. Over one-third of the retailers purchased all their cheese from commission merchants and jobbers. About 30 % bought their entire supply from wholesale grocers. The fact that cheese is less perishable than other dairy products makes it possible for the wholesale grocer to have a larger share in its distribution than in the case of butter, for example.

Eggs were purchased either direct from the farmers or from commission merchants, jobbers, and other distributers of perishable food products. Wholesale grocers take little or no part in the distribution of eggs. The source from which eggs are bought depends almost entirely upon the section of the country in which the store is located. The same conclusions hold true for fresh fruit and vegetables. In general, however,

the commission merchants and jobbers have a larger share of the trade in fresh fruit and vegetables than in the trade in eggs.

Fresh meat was bought from butchers, packing companies, or commission merchants. There seems to have been some tendency for retailers to increase their purchases of fresh meat from the butchers and packing companies. In the reports received prior to 1918 slightly over 50 % of the retailers purchased all their meat direct from the butchers and packing companies. In addition 5 % made some of their purchases there. About 40 % stated that they bought only from commission merchants and jobbers. The reports for 1918, while not fully comparable with those for the previous period, indicated that fewer retailers were buying entirely from commission merchants and jobbers and that a larger proportion were buying only from butchers and packing companies. A similar shift seems to be indicated in the trade in canned meat, the tendency being to purchase more from the packers and less from wholesale merchants.

In the distribution of canned fruit and vegetables, however, there seems to have been little change. Over two-thirds of the retailers purchased their supply of canned fruit and vegetables entirely from wholesale grocers, and over 20 % additional purchased at least a part of their supply of canned fruit and vegetables from wholesale grocers. The other purchases were chiefly direct from the canners.

Over 40 % of the retailers bought confectionery only from manufacturers. Numerous others purchased a part of their supply direct from manufacturers. The remainder was bought either from wholesale grocers or from specialty wholesalers.

The tobacco sold by retail grocers was purchased largely from wholesale grocers. Over 60 % of the retailers bought their entire supply of tobacco from that source, and 15 % bought their supplies solely from specialty wholesalers. Only 2 % or 3 % purchased exclusively from tobacco manufacturers.

Bulk and Package Goods

An inquiry was also made regarding the relative quantities of certain articles sold in bulk and in packages. The answers to this inquiry were only estimates, of course, but even allowing for numerous inaccuracies they seem to have some significance.

In the stores from which reports were received prior to 1918, 80 % sold flour only in packages. In 1918, the proportion of stores selling flour only in packages was even higher.

Before the war, 38 % of the stores stated that they sold sugar only in bulk. In 1918, less than 6 % of the stores sold sugar only in bulk. In the earlier period, furthermore, only 15 % sold package sugar entirely, but in 1918 over one-half of the stores reported that they sold sugar only in packages. This difference is so striking as to indicate a large increase in most parts of the country in the sale of sugar in packages during the last five years.

Breakfast foods were sold chiefly in packages. None of the retailers reporting sold breakfast foods entirely in bulk, and about 90 % handled only package goods in this line.

Before the war, 7 % of the retailers reported that they handled only bulk crackers. In 1918, there was not a single grocer who stated that he handled crackers only in bulk. The number of stores selling crackers only in packages, moreover, seems to have increased. Before the war, 12 % of the stores stated that they sold crackers only in packages, whereas in 1918 over 40 % were carrying only package goods.

There has also been an apparent increase in the number of stores that carry dried fruit, coffee, and tea in packages. Before the war, about 6 % of the retailers sold dried fruit only in packages. In 1918, one-third of the stores stated that they did not handle dried fruit in bulk. There has been a similar increase in the sale of coffee and tea in packages.

In the earlier years, 15 % of the retailers carried butter only in bulk and 50 % only in packages. In 1918, some package

butter was sold in every store that furnished a report, and over three-fourths of these stores sold butter only in packages.

Brands

Along with the increase in the quantity of package goods sold there has been an increase in the quantity of branded merchandise carried. Most of the retailers stated in reply to the Bureau's inquiry that there has been a growing tendency among their customers when ordering goods to specify the brands that they preferred.

One of the problems facing the retail grocer is the selection of the brands that he is to carry on his shelves. Over one-half of the grocers reported that they were making an attempt to restrict the number of brands that they carried in order to keep down their investment in merchandise, to avoid losses through deterioriation, and to obtain a faster rate of stock-turn. It is probable, however, that most of the stores still carry an unnecessarily large number of brands in numerous lines.

Many retail grocers have private brands of their own in some lines of merchandise. The articles on which the retailer's private brand is most commonly found are coffee, tea, canned goods, and flour. Others also have private brands of such articles as ammonia, starch, soap, olives, cereals, cocoa, spices, and bottled goods.

The retailers who carry private brands believe that it is good advertising — attracting to their stores customers whose trade they are likely to retain. In some cases the retailer obtains a larger gross profit on the private brands and prefers them on that account. He also is not forced to mark down his own brands to meet the price-cutting policy of his competitors. The reason most commonly given for the preference for retailer's private brands, however, is that it strengthens the hold of the retailer upon the trade of his customers. Yet in the stores that sell private brands there does not seem to be a higher gross profit, a higher net profit, or a lower figure for

total expense than in the stores that do not carry private brands. The rate of stock-turn, furthermore, is about the same in stores that sell private brands as in stores that do not sell them.

Quantity Discounts

Somewhat over one-half of all the stores reported that they were in favor of quantity discounts from wholesalers and manufacturers. A quantity discount is a special discount on the price that is given for a large order. Among the retailers that were opposed to quantity discounts, nearly one-half of the total, the chief reason given was that they felt it gave the large retailer an unfair advantage over his smaller competitor. Many others stated that they were opposed to quantity discounts because these discounts tempted the small retailer to over-buy and incur loss through depreciation of his stock. As might be expected, the larger stores were the ones that were in favor of quantity discounts. The rate of stock-turn was about the same in stores that favored quantity discounts as in those that were opposed to them.

Purchase Records

Few retail grocers kept any sort of a continuous inventory of their stock on hand. This would require entries from sales slips, and the number of brands carried in the average retail store is so great, and the average amount of each sale so small that much extra work would be involved in keeping a continuous inventory. The few stores that have installed such a system have apparently found it worth while. Under present conditions prevailing in the retail grocery trade, however, it does not seem probable that the use of stock records will soon become general.

As a substitute for a continuous inventory of stock on hand, a purchase record is being used by a number of stores. This also gives desirable information to assist in buying.

A suggested form (enlarged in size) for these purchase records is shown on the opposite page. The form can readily be varied, of course, to meet the special problems of each individual store.

For these records, cards 3 × 5 inches in size are used. One card is made out for each brand of merchandise carried. At the top the date of the first actual inventory is entered, and the quantity on hand when the inventory was taken. In order to facilitate comparisons, the quantity on hand at the next inventory date is also entered.

On the body of the card in the first column the date is entered when each order is placed. In the next column the date is entered when the shipment is received. The third column is for the name of the firm from which the goods are purchased. The following five columns are for packages or units of different sizes. If a certain brand of cocoa were purchased in two sizes, for example, one-pound and half-pound, two of the columns would be used. At the head of the first column under "Size" would be written "1 lb." At the head of the second column under "Size" would be written "½ lb." When an order was given for twelve one-pound packages, the number "12" would be entered in the column headed "Size 1 lb." The total cost of the twelve one-pound packages would be entered in the column headed "Total Cost." If twenty-four half-pound packages of the same brand cocoa were ordered, "24" would be entered on the second line in the column headed "Size ½ lb." The total cost of the twenty-four half-pound packages would be entered similarly under "Total Cost." In the column headed "Cost per Package" the cost for each unit is entered. If the total cost of the twelve one-pound packages were $3.60, this would be divided by twelve and $0.30 entered in the "Cost per Package" column. If the total cost of the twenty-four half-pound packages were $5.20, $0.21⅔ would be entered in the "Cost per Package" column on that line.

BRAND	INVENTORY: DATE	QUANTITY
	DATE	QUANTITY

Date Ordered	Date Received	Bought from	Number of Packages					Total Cost	Cost per Package	Selling Price	Gross Profit
			Size	Size	Size	Size	Size				
											%
Total Quantity Purchased											
Average Time Between Purchases											

The selling price for each size of package is entered in the column headed "Selling Price." The gross profit in percentage of selling price is entered in the last column. At the bottom of the card an entry is made of the total quantity of each size purchased during the period covered by the card. If one card were used for six months, for example, the total at the bottom would show the total quantity purchased during the six months. The total cost of all purchases of this brand is likewise entered. An entry may also be made at the bottom for the average length of time between purchases for each size of package, to be determined from the entries of order dates.

When such records are used, it is easy for the proprietor to guard against over-buying. This record will show when the merchandise has been bought, and in what quantity. When it is necessary to re-order, he can readily determine the length of time it has taken him to dispose of the quantity bought on the last order. From this he can judge whether or not the size of his order should be cut down. If it were a slow-mover, then he would ordinarily reduce substantially the quantity to be purchased on a new order.

By comparing these records with the stock on hand at as frequent intervals as possible, the grocer can detect slow-movers before the time comes for re-ordering. This helps him to keep his stock fresh and clean, and to avoid the expense and loss that comes through the accumulation of slow-selling goods. Records of this sort are being used with success and with comparatively little extra labor by several grocers.

Arrangement of Merchandise

An investigation has been made by an agent of the Bureau in twenty-three grocery stores regarding their methods of arranging their stocks of merchandise. These stores were representative of various types of business. They included stores with a large volume of business and stores with a small

volume of business. They included stores in large cities and in small towns and rural districts. They also included stores selling fancy groceries, stores with a medium grade of goods, and stores selling low-price merchandise.

Owing to differences in the area and shape of the floor space available in individual stores, and because of differences in the character of the patronage of grocery stores, it is obvious that no fixed, standardized plan of laying out the store and arranging the merchandise can be applied to all. In fact, there are hardly two stores which can be laid out on just the same plan. Nevertheless, the Bureau found that there were substantial opportunities for improvement in the methods of arranging the merchandise in a large proportion of the stores inspected. These general principles seem to be obvious, but there are apparently many stores which are not observing them.

The location of the main sales counter at the point where customers can be served most rapidly and with least confusion appears to give the most satisfactory results. There are some stores which have adopted intentionally a policy of locating their main sales counters at points which are not the most convenient for their customers. The purpose of a store in making such an arrangement is to force the customers to the less convenient points, in order that more displays must be passed by before making a purchase. This is on the theory that the customers will be induced to purchase more goods. The results in stores following this policy do not seem to be as satisfactory, as a rule, as in the stores which seek to give easy and rapid service. The more conveniently and, therefore, the more rapidly customers can be served, the lower are the sales expenses ordinarily. It is doubtful, furthermore, if in the long run a merchant succeeds in increasing his sales substantially by making it less convenient for the customers to reach the main counter where they will be served.

Another minor point, which may be of considerable importance in its aggregate savings, is the location of the scales. Time is saved by having the scales located near the bulk goods. In determining the location of the main sales counter and such accessories as scales, however, the delivery plans also must be taken into account. A store that delivers a large portion of its merchandise and ships it from the rear of the store finds it advantageous to have its main sales counter located at a point where the delivery orders can be made up rapidly. In such a store care is necessary to avoid blocking the approach to the main sales counter with merchandise or with delivery baskets.

In arranging the merchandise, it is a primary rule to have the entire stock of each article in one place. In a number of stores that were visited this rule was not observed. When merchandise came in, it was put upon the shelves wherever there happened to be a vacant spot, irrespective of any stock of goods of the same brand already on hand. The result was that small lots of one article would be found in three or four different places, and some of this stock was becoming stale. In general, customers can be served more rapidly and satisfactorily and goods can be bought more intelligently if the entire stock of each article is kept in one place.

In the stores that have given the most careful attention to the problems of arrangement, the merchandise is located according to the frequency with which each article or brand is sold. In one store, for example, on the shelves directly back of the main sales counter were breakfast foods. Then extending to the front of the store were canned milks, cocoa, extracts, and spices; to the rear, canned vegetable goods. The shelves in the rear of the store at the end of the sales counter were filled with such articles as soap, bluing, etc. These shelves could be reached from the main sales counter by taking three or four steps. Under the main sales counter were bins for bulk goods, such as beans, rice, and sugar, or

shelves on which packages of these goods already weighed and wrapped were placed. This arrangement permitted the salesmen to fill the orders that they received with the fewest possible steps. The location of the other merchandise carried in this store was on the same principle of placing the goods for which there was an active demand as near as possible to the sales counter and those for which there was the least active demand at the more remote points. In many other stores, on the other hand, where no systematic arrangement of merchandise had been attempted, it was necessary for the salesmen to cross and recross the store and frequently to travel the entire length of the store in filling a single order. This wasted so much time that the amount sold by each salesman was small and the selling expense, therefore, high.

The goods that are carried in bulk are generally located near the main sales counter. The fancy specialties are ordinarily placed in the front part of the store where their display is most attractive. Many of the grocers visited stated that from their experience it was desirable to locate stocks of fresh fruit and vegetables near the door where they could be seen easily by customers. In several stores slow-movers and seasonable merchandise were displayed on a table or counter having a prominent place in the store. Retailers found that in this way they could dispose of their stocks of slow-moving goods to advantage. Another method of display adopted in some stores was to use the shelves immediately behind the main sales counter for featuring merchandise to which the proprietor wished especially to attract attention. The displays were changed frequently. These arrangements for display, however, were not permitted to interfere with the plans for serving customers conveniently and rapidly.

It is apparent that the time spent in arranging the merchandise systematically to prevent confusion and untidiness means economy in selling and also counts heavily in the im-

pression given to customers of the cleanliness and character of the merchandise sold.

In arranging merchandise in the storeroom, the most successful grocers followed a plan similar to that which worked most satisfactorily in the store itself. The entire stock of each brand or of each article was kept in one place, and those articles for which the demand was heaviest were located where they were most readily accessible, so as to save time in transferring goods from the storeroom to the store.

Numerous instances were found in which there was no semblance of order in the storeroom. In one store, for example, empty boxes and merchandise were scattered around promiscuously, much as in the store itself. No record was kept of the goods in the storeroom, and while the agent was in the store the proprietor gave an order for a widely known brand of crackers, stating that his stock was exhausted. A few minutes later, in looking over the goods in the storeroom, the agent found four cases of this particular brand of crackers located in a corner behind a pile of boxes. These four cases had been in the storeroom for about a year. This may not be a typical case, but there are apparently a large number of stores in which the stock of merchandise carried is too large for the volume of sales and in which there is loss through deterioration because of the lack of order not only in the store itself but also in the storeroom.

In filling delivery orders there is a saving in time by having a regular system according to which all the orders for each route are kept together. Some grocers have fallen into the habit, in filling their delivery orders, of placing the delivery baskets on the floor of the store instead of in their delivery room, even when there is adequate space in the delivery room for these baskets. In a few stores, on the other hand, which are among those that are most successful, careful consideration has been given to the arrangement of the delivery baskets according to routes. This arrangement avoids the necessity

of handling the baskets several times and results in much less confusion and lower delivery expense. In a store where more or less confusion now exists, an inexpensive rack can oftentimes be placed in the delivery room. Spaces can be assigned in this rack to each delivery route and baskets placed in the rack according to the route to which they belong. This will mean a worth-while saving.

These are illustrations of the management problems to which retail grocers find it profitable to give attention.

Conclusion

The inquiries of the Bureau have covered numerous questions of store management in addition to those discussed in the preceding pages. The tests that have been applied to the replies, however, do not indicate any methods that are especially economical or profitable. The conclusion has been reached, therefore, that the vital points in the successful management of a retail grocery store are:

(1) To keep accurate accounts, taking stock at least once a year.
(2) To secure a high stock-turn, avoiding over-buying and confining purchases to goods for which there is a ready demand from customers.
(3) To obtain a large volume of sales per salesperson.
(4) To arrange the merchandise and fixtures in the store in such a way as to facilitate rapid service to customers.
(5) To secure a minimum delivery expense, employing coöperative delivery service where possible.
(6) To avoid serious and heavy losses from bad debts.

It is by these means that the most successful retail grocers are developing and strengthening their businesses.

In conclusion it should also be pointed out that there are few, if any, retail trades in which the average operating expenses and the average gross profits are lower, in percentage of sales, than in the retail grocery business.

GENERAL MERCHANDISE STORES

In the course of its study of the retail grocery business before 1919, the Bureau received reports incidentally from several general merchandise stores that wished to coöperate in the research. The business of general merchandise stores is so closely related to the grocery trade that a special inquiry has been made in 1919 and reports received from 115 general merchandise stores covering the business year 1918. The results are presented here. It is to be understood, of course, that the investigation of the business of general merchandise stores has been far less comprehensive and thoroughgoing than the study of the retail grocery trade. The facts that are stated here are based upon information from too few stores to justify drawing any final conclusions. Nevertheless, the Bureau believes that the results have enough significance to warrant their publication at this time.

The proprietors of 115 general merchandise stores located in small towns in thirty-eight states furnished reports for the business year 1918. Of these stores 48% were located in the West, 14% in the Middle West, 23.5% in the East, 8.5% in the South, and 6% in the Pacific Coast States. The volume of sales of all kinds of merchandise in these stores ranged from $8,400 to $520,000 a year. The average annual volume was $51,000. The average inventory in these stores was 14% higher in January, 1919, than in January, 1918. This is accounted for chiefly by the higher range of prices.

OPERATING EXPENSES IN GENERAL MERCHANDISE STORES

The figures for operating expenses in these stores have been adjusted to the accounting system for retail grocers, which has been found applicable to the general merchandise business. The table on the following page gives a summary of

TABLE II. OPERATING EXPENSES IN GENERAL MERCHANDISE STORES, 1918. Net Sales = 100%

	Lowest %	Highest %	Common %
Wages of Salesforce	2.1	13.08	5.6
Advertising	0.03	1.79	0.3
Wrappings and Other Selling Exp.	0.12	0.68	0.3
Total Selling Expense	2.37	14.16	6.4
Wages of Delivery Force	0.26	1.47	1.0
Other Delivery Expense	0.14	1.41	0.67
Total Delivery Expense	0.47	2.22	1.7
Buying, Management and Office Salaries	1.08	5.4	2.4
Office Supplies, Postage and Other Management Expense	0.12	0.7	0.2
Total Buying and Management Expense	1.27	5.4	2.8
Total Interest	0.54	4.95	2.2
Rent	0.49	2.9	0.9
Heat, Light and Power	0.06	0.74	0.3
Taxes (except income and bldgs)	0.09	0.99	0.4
Insurance (except on buildings)	0.07	1.76	0.37
Repairs of Store Equipment	0.01	0.38	0.09
Depreciation of Store Equipment	0.05	0.77	0.3
Total Fixed Charges and Upkeep Expense	2.11	8.53	5.0
Miscellaneous Expense	0.07	0.98	0.3
Losses from Bad Debts	0.02	2.64	0.4
Total Expense	10.03	29.5	15.5

GROSS AND NET PROFIT

	Highest %	Lowest %	Common %
Gross Profit	31.5	9.8	19.0
Net Profit (or Loss)	*Profit* 17.7	*Loss* 10.18	*Profit* 3.4

operating expenses and profits in general merchandise stores for 1918. All the percentages are based upon net sales. The common figure for each item is the one that is most representative and may be used as a standard for comparisons.

Total Expense

The common figure for total expense in 1918 in these general merchandise stores was 15.5 % of net sales. This corresponded closely to the common figure shown by the reports received for the preceding years. Most of the stores that maintained their own delivery service showed a higher figure than this for total expense, but taking the stores as a whole 15.5 % was the standard figure. This includes not only such expenses as wages of salesforce, advertising, taxes and insurance, but also a salary for the proprietor or partners, interest both on borrowed money and on the proprietor's net investment, and rent of the store whether owned or leased.

Selling Expense

The largest single item of expense was wages of salesforce, which varied in 1918 from 2.1 % to 13.08 %. The common figure was 5.6 %. A substantial proportion of the stores, however, spent less than 5 % for wages of salesforce. For total selling expense, which includes not only wages of salesforce but also advertising, wrappings and other selling expense, the common figure was 6.4 % of net sales in 1918.

Delivery Expense

Only about one-half of the stores had any expense for delivery. In the stores that maintained their own delivery equipment the common figure for total delivery expense was 1.7 % of net sales in 1918. Stores that employed coöperative delivery service showed a total delivery expense only about one-fourth as high as was shown by stores that maintained their own equipment.

Buying, Management and Office Salaries

This item includes salaries and wages paid to the office employees and also a part of the salary of the proprietor or partners proportionate to the time that is spent in buying and managing. The common figure for buying, management and office salaries was 2.4 % in 1918.

Fixed Charges and Upkeep Expense

The largest item in fixed charges and upkeep expense was total interest which ranged from 0.54 % to 4.95 %. The common figure for total interest in 1918 was 2.2 % of net sales. This was over twice as high as the common figure for total interest in retail grocery stores, owing mainly to the fact that the rate of stock-turn was lower in general merchandise stores. This total interest includes interest on borrowed capital and also interest on the average net investment of the proprietor, exclusive of real estate.

For rent the common figure in 1918 was 0.9 %. This was slightly less than in the retail grocery trade, a difference that was probably due to the fact that general merchandise stores are more commonly located in small towns. For the general merchandise stores that reported prior to 1918, the common figure for rent was 1.2 % of net sales.

The common figure for total fixed charges and upkeep expense, which includes not only total interest and rent but also heat, light and power, taxes, insurance, repairs of store equipment and depreciation of store equipment, was 5 % of net sales.

STOCK-TURN IN GENERAL MERCHANDISE STORES

The highest figure for stock-turn was 13.1 times a year. This was in a store in which a large part of the sales were groceries. The lowest figure for stock-turn was 0.86 times a

year. The common figure was 2.4 times a year. Among the stores in which over 50 % of the sales were groceries, however, few showed a stock-turn higher than 4 times a year. In general it appears that an increase in the rate of stock-turn is ordinarily possible of attainment in these stores.

MANAGEMENT PROBLEMS IN GENERAL MERCHANDISE STORES

Sales of Different Kinds of Merchandise

On the form that was sent to general merchandise stores each merchant was asked to state the amount of his sales of groceries, dry goods, shoes, men's clothing and furnishings, furniture, hardware and cutlery, crockery and kitchen-ware, farm implements and other lines. From these reports percentages have been compiled to show the relative amount of sales in each line. While in a few stores the sales of groceries were only 15 % to 20 % of the total and in a few others over 80 %, in a large majority of the stores groceries made up about one-half of the total sales. In a majority of the stores the sales of dry goods were about 20 % of the total sales, shoes 10 %, men's clothing and furnishings 6 %, hardware and cutlery 3 %, and crockery and kitchen-ware 1.5 %. In the stores that carried furniture, the sales in this line amounted to about 2 % of their total sales. In the stores that carried farm implements, the sales in this line generally amounted to about 2.5 % of their total sales.

Average Sales per Customer

The average sales per customer were generally from $200 to $300 a year.

Cash and Credit Sales

One of the services commonly rendered by general merchandise stores is to grant credit to their customers. Only

13 % of the merchants that furnished reports sold strictly for cash. Credit was given in 87 % of these stores. In about one-half of the stores the length of credit given was from two weeks to a month. In one-fifth of the stores the average length of credit was two months, in 15 % from three to five months, and in 14 % six months.

Average Sales per Salesperson

The average annual sales per salesperson ranged from $5,900 to $29,000. The common figure was $14,000. This is a particularly significant index, since the stores in which the average sales per salesperson were low nearly always showed a high salesforce expense. One of the chief means of securing economy in the operation of a general merchandise store, as in other retail businesses, is to develop plans for obtaining a high volume of sales per salesperson.

Purchases of Produce

In general merchandise stores it is the common practice to purchase farm produce from customers or to accept it in trade. Among the general merchandise stores that furnished reports, 87 % stated that they received produce from their customers. The kind of produce received from customers varied, of course, according to the section of the country in which the store was located. In the stores that dealt in produce, 94 % bought eggs, 72 % butter, 55 % fruit and vegetables, 31 % meat and poultry, 7 % cream, 5 % lumber, 11 % grain, 4 % cotton, 16.5 % other produce, such as lard, cheese, honey, hides and tallow. These figures are to be considered merely as an indication of the kinds of produce dealt in by general merchandise stores. The detailed figures would doubtless be changed if more reports had been received from certain sections of the country. In the South, for example, many stores purchase cotton, but only a small number of southern general merchandise stores furnished reports.

The amount of produce purchased from customers ranged from $200 to $130,000 in 1918. In the stores that purchased such produce as eggs and butter, a large group reported that the amount of their total purchases of produce was from $1,000 to $3,000, another group from $4,000 to $8,000. There were also numerous stores with purchases of produce amounting to over $15,000 a year.

About one-fourth of the stores that purchased produce from their customers used tokens, such as metal checks or trade chips, in payment. Payment was also made in cash, in merchandise and by credit in this trade. No one method was used predominantly.

The accounting methods in general merchandise stores closely resemble those used by retail grocers. Many of the conclusions stated regarding accounting and management methods in retail grocery stores also apply to general merchandise stores.

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